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**ANNUAL AUDIT  
FORM X-17A-5  
PART III**

OMB APPROVAL	
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8- 00044

**FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 10/1/13 AND ENDING 9/30/14  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: H. C. Denison Co.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

618 N 7th Street

(No. and Street)

Sheboygan

WI

53081

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

James Testwuide

(920) 457-9451

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Schenck SC

(Name - if individual, state last, first, middle name)

712 Riverfront Drive Suite 301

Sheboygan

WI

53081

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

*12/2/14*

## OATH OR AFFIRMATION

I, James A. Testwuide, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of H. C. Denison Co., as of September 30, 20 14, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

James M. Scroggins  
Notary Public

[Signature]  
Signature  
CEO / President  
Title

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) SEC Rule 15c3-3 Exemption Report.

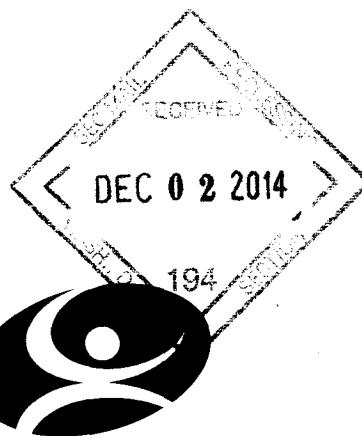
\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**H. C. DENISON CO.**

Financial Statements

September 30, 2014

Together With Independent Auditors' Report



**Schenck**  
SC

**CPAs AND SO MUCH MORE.**

**H. C. DENISON CO.**

Financial Statements

September 30, 2014

Together With Independent Auditors' Report

H. C. DENISON CO.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
H. C. Denison Co.  
Sheboygan, Wisconsin

We have audited the accompanying financial statements of H. C. Denison Co., which comprise the statement of financial condition as of September 30, 2014, and the related statements of operations, changes in stockholder's equity and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements and supplemental information. H.C. Denison Co.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of H. C. Denison Co. as of September 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



The supplemental Schedules I, II and III have been subjected to audit procedures performed in conjunction with the audit of H.C. Denison Co.'s financial statements. The supplemental information is the responsibility of H.C. Denison Co.'s management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 of the Securities Exchange Act of 1934. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Certified Public Accountants

Sheboygan, Wisconsin  
November 24, 2014

H. C. DENISON CO.

Statement of Financial Condition  
September 30, 2014

ASSETS

Cash and cash equivalents	\$ 115,565
Cash - Segregated at clearing house	155,188
Receivables:	
Commissions	79,391
Interest and dividends	5,388
Securities owned, at fair value	365,896
Federal tax deposit	6,446
Property and equipment, net of accumulated depreciation of \$57,638	<u>27,750</u>
	<u>\$ 755,624</u>

See notes to financial statements.



LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

Payables:

Clearing broker

\$ 362,270

Other

4,516

Accrued liabilities:

Salaries, commissions and related withholdings

37,346

Property taxes

7,802

Total liabilities

\$ 411,934

Stockholder's equity

Common stock, no par value:

Authorized, 2,000 shares

Issued and outstanding, 1,803 shares

1,482,778

Accumulated deficit

(1,139,088)

Total stockholder's equity

343,690

\$ 755,624

H. C. DENISON CO.

Statement of Operations  
Year ended September 30, 2014

Revenues

Commissions	\$ 1,706,752
Net dealer inventory and security gains	197,226
Interest and dividends	17,706
Other	<u>27,267</u>

Total revenues \$ 1,948,951

Expenses

Employee compensation and benefits	1,710,971
Communications	36,354
Promotional costs	18,674
Occupancy and equipment	96,716
Interest	9,516
Professional fees	33,688
Bank and clearing charges	93,991
Other	<u>66,985</u>

Total expenses 2,066,895

Net loss \$ (117,944)

See notes to financial statements.

H. C. DENISON CO.

Statement of Changes in Stockholder's Equity  
Year ended September 30, 2014

	<u>Shares</u>	<u>Common Stock</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance, October 1, 2013	1,803	\$ 1,482,778	\$ (1,021,144)	\$ 461,634
Net loss	<u>-</u>	<u>-</u>	<u>(117,944)</u>	<u>(117,944)</u>
Balance, September 30, 2014	<u>1,803</u>	<u>\$ 1,482,778</u>	<u>\$ (1,139,088)</u>	<u>\$ 343,690</u>

See notes to financial statements.

H. C. DENISON CO.

Statement of Cash Flows  
Year ended September 30, 2014

Operating activities

Net loss \$ (117,944)

Adjustments to reconcile net loss to net cash  
used for operating activities:

Depreciation 5,248

Decrease (increase) in:

Cash - Segregated 45,006

Receivables (38,218)

Securities owned (51,869)

Federal tax deposit (6,446)

Increase in:

Payables 51,615

Accrued liabilities 14,656

Net cash used for operating activities \$ (97,952)

Investing activity

Purchase of property and equipment (3,478)

Cash and cash equivalents

Net decrease (101,430)

Beginning of year 216,995

End of year \$ 115,565

Supplemental disclosure of cash flow information

Cash paid for interest \$ 9,516

See notes to financial statements.

## H. C. DENISON CO.

### Notes to Financial Statements September 30, 2014

#### Note 1 - Nature of business and significant accounting policies

##### A. Nature of business

H. C. Denison Co. (Company) is a broker and dealer in securities located in Sheboygan, Wisconsin and is considered to be an introducing broker. The Company clears all securities transactions through Southwest Securities, Inc. (SWS). SWS also holds and maintains all of the Company's customer accounts as well as the Company's securities owned. The Company is registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

##### B. Subsequent events

The Company has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 24, 2014, the date which the financial statements were available to be issued.

##### C. Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### D. Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

##### E. Securities owned and revenue recognition of securities transactions

Securities and commodities transactions of the Company and any related profit or loss are recorded on a trade-date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Securities are recorded at fair value. See Notes 1J and 5 for a discussion of fair value measurements.

##### F. Commissions

Commissions and related clearing expenses are recorded on the trade-date basis as securities transactions occur. Commissions receivable are normally collected in the month following when they are earned. At September 30, 2014, management determined that no valuation allowance was necessary for uncollectible receivables.

H. C. DENISON CO.

Notes to Financial Statements, Continued  
September 30, 2014

Note 1 - Nature of business and significant accounting policies, continued

G. Property, equipment and depreciation

Property and equipment are stated at cost. Expenditures for additions and improvements are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently as incurred. Properties sold or otherwise disposed of are removed from the property accounts, with gains or losses on disposal credited or charged to operations.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

H. Advertising

The Company expenses advertising costs as they are incurred. Advertising costs were \$17,299 for the year ended September 30, 2014. These costs are included in promotional costs on the statement of operations.

I. Income taxes

The Company has elected, by consent of its stockholder, to be taxed as an S corporation under the provisions of the Internal Revenue Code and Wisconsin Statutes. Under those provisions, the Company does not pay federal and Wisconsin corporate income taxes on its taxable income and is not allowed a net operating loss carryover or carryback as a deduction. Instead, the stockholder is liable for individual income taxes on the taxable income of the Company. Accordingly, no provision for income taxes has been made by the Company. The Company periodically makes distributions to the stockholder for income taxes.

The Company follows the guidance for accounting for uncertainties in income taxes which is part of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. This guidance increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainties in income taxes for tax positions taken or expected to be taken. It makes recognition and measurement more consistent as well as offering clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes.

Penalties and interest assessed by income taxing authorities are included in other expenses. The Company had no interest and penalties related to income taxes for the year ended September 30, 2014. The Company's federal income tax returns are subject to examination generally for three years after they are filed and its state income tax returns generally for four years after they are filed.

H. C. DENISON CO.

Notes to Financial Statements, Continued  
September 30, 2014

Note 1 - Nature of business and significant accounting policies, continued

J. Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements with respect to financial assets and liabilities that are measured at fair value within the financial statements on a recurring basis, and with respect to nonfinancial assets and liabilities that are measured at fair value within the financial statements on a nonrecurring basis, such as long lived and intangible assets.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The fair value hierarchy specified by ASC 820 is as follows:

- Level 1 - Quoted prices in active markets for identical assets and liabilities.
- Level 2 - Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used as of September 30, 2014.

*U.S. Government obligations and stocks:* Valued at the closing price reported in the active market in which the individual security is traded.

*Corporate and municipal bonds:* Valued at the closing price reported in the active market in which the bond is traded, if available. Certain bonds are valued at the last reported bid and asked prices and other bonds are valued based on yields currently available on comparable securities of issues with similar ratings.

H. C. DENISON CO.

Notes to Financial Statements, Continued  
September 30, 2014

Note 1 - Nature of business and significant accounting policies, continued

J. Fair value measurements, continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 2 - Concentration, risks and uncertainties

The Company maintains cash deposits at several banks. Deposits at each bank are insured by the Federal Deposit Insurance Corporation up to \$250,000 per entity. The Company's cash deposits, at times, exceed these limits.

The Company's securities are subject to various risks, including market, credit and interest rate risks.

Note 3 - Cash - Segregated at clearing house

The Company is required to maintain cash balances at SWS. These segregated cash balances fluctuate periodically based on activity. SWS holds securities owned by the Company and is the Company's clearing agent.

Note 4 - Payable to clearing broker

As discussed in Note 1A, SWS clears and holds securities owned by the Company. The amount payable to this clearing broker relates to securities purchased by the Company, for which they have not yet remitted payment, and is collateralized by securities owned by the Company.



# H. C. DENISON CO.

## Notes to Financial Statements, Continued September 30, 2014

### Note 5 - Securities owned and fair value measurements

The following table presents, for each of the fair value hierarchy levels, determined on the basis of the nature and risks, the Company's financial assets at September 30, 2014 that are measured at fair value on a recurring basis:

<u>Assets</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Securities owned:				
Corporate bonds:				
A credit rating	\$ 4,875	\$ 4,875	\$ -	\$ -
A- credit rating	12,437	6,559	5,878	-
Aa3 credit rating	7,590	-	7,590	-
BBB- credit rating	13,263	13,263	-	-
U.S. Government obligations	11,332	11,332	-	-
Municipal bonds:				
AA credit rating	15,059	-	15,059	-
AA- credit rating	69,623	-	69,623	-
Aa2 credit rating	27,725	-	27,725	-
Aa3 credit rating	119,795	-	119,795	-
A credit rating	30,025	-	30,025	-
BBB credit rating	4,844	-	4,844	-
Baa1 credit rating	<u>49,328</u>	<u>-</u>	<u>49,328</u>	<u>-</u>
Total assets measured at fair value on a recurring basis	<u>\$ 365,896</u>	<u>\$ 36,029</u>	<u>\$ 329,867</u>	<u>\$ -</u>

### Note 6 - Net capital requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At September 30, 2014, the Company had net capital of \$208,504, which was \$108,504 in excess of its required net capital of \$100,000. The Company's net capital ratio was 0.2382 to 1.

### Note 7 - Profit-sharing plan

The Company has a profit-sharing plan covering substantially all of its employees. The Board of Directors determined that for the year ended September 30, 2014, no contribution would be made to the plan. The plan also contains a 401(k) voluntary salary reduction feature.

H. C. DENISON CO.

Notes to Financial Statements, Continued  
September 30, 2014

Note 8 - Related party transactions and lease commitment

The Company leases its Sheboygan office facility under a month-to-month agreement from a former stockholder for \$4,000 per month. The Company is required to pay real estate taxes, insurance and the cost of the normal repairs and maintenance to the building.

Rent expense under all operating leases amounted to \$53,583 for the year ended September 30, 2014.

SUPPLEMENTAL INFORMATION

H. C. DENISON CO.  
Computation of Net Capital  
September 30, 2014

Net capital

Total ownership equity, as reported on statement of financial condition	\$ 343,690
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## Less nonallowable assets:

Property and equipment, net of accumulated depreciation	\$ 27,750
Other assets	<u>76,867</u>

Total nonallowable assets	<u>104,617</u>
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Net capital before haircuts on securities positions	239,073
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## Less haircuts on securities positions:

Exempted securities	27,626
Debt securities	2,943
Other securities	<u>-</u>

Total haircuts on securities positions	<u>30,569</u>
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Net capital	<u>\$ 208,504</u>
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Basic net capital requirement

Net capital required (greater of \$100,000 or 6.67% of aggregate indebtedness)	<u>\$ 100,000</u>
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Excess net capital	<u>\$ 108,504</u>
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Aggregate indebtedness

Total aggregate indebtedness liabilities from statement of financial condition	\$ 49,664
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Less deposits in special reserve bank accounts	<u>-</u>
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Total aggregate indebtedness	<u>\$ 49,664</u>
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Percentage of aggregate indebtedness to net capital	23.82%
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Note: There are no material differences between the preceding computation and the Company's corresponding unaudited Part IIA of Form X-17A-5 as of September 30, 2014.

H. C. DENISON CO.  
Computation for Determination of Reserve Requirements  
Pursuant to Rule 15c3-3  
September 30, 2014

The Company is claiming an exemption from the Computation for Determination of Reserve Requirements pursuant to SEC Rule 15c3-3, based on the exemption found in Section (k)(2)(ii), as all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

H. C. DENISON CO.  
Information for Possession or Control Requirements  
Pursuant to Rule 15c3-3  
September 30, 2014

The Company is claiming an exemption from the Information for Possession or Control Requirements pursuant to SEC Rule 15c3-3, based on the exemption found in Section (k)(2)(ii), as all customer transactions are cleared through another broker-dealer on a fully disclosed basis.